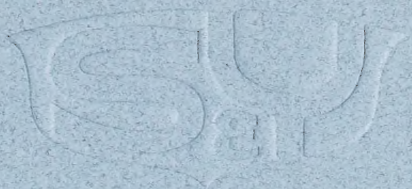


AR49



SCOTTISH and YORK

1976

Annual Report



### **Board of Directors**

R. D. ABBOT  
R. W. BROUGHTON  
S. F. CHAPMAN  
K. H. DOYLE  
W. G. HOLBROOK  
S. L. McCABE  
A. D. McEWEN  
K. R. THOMSON  
J. A. TORY

### **Officers**

R. W. BROUGHTON — *Chairman of the Board and Chief Executive Officer*  
W. G. HOLBROOK — *President and Chief Operating Officer*  
R. D. ABBOT — *Vice-President and Secretary-Treasurer*  
S. F. CHAPMAN — *Vice-President — Finance*  
J. A. TORY — *Vice-President*  
D. A. BOYD — *Vice-President*  
N. W. McDERMOTT — *Asst. Vice-President*

### **Transfer Agent**

MONTREAL TRUST COMPANY

### **Auditors**

THORNE RIDDELL & CO.

### **Bankers**

THE ROYAL BANK OF CANADA

### **Executive Office**

155 UNIVERSITY AVENUE, TORONTO, CANADA

SCOTTISH & YORK HOLDINGS LIMITED



*Canada*

SCOTTISH & YORK INSURANCE CO. LIMITED  
VICTORIA INSURANCE COMPANY OF CANADA  
CENTRAL CANADA INSURANCE SERVICE LIMITED  
ONTARIO INSURANCE SERVICE

*United States*

SCOTTISH & YORK, INC.  
SCOTTISH & YORK INTERNATIONAL INSURANCE, INC.  
LINCOLN INSURANCE COMPANY  
GUARANTEE INSURANCE COMPANY  
ASSOCIATED TREATY MANAGERS, INC.  
INTERNATIONAL MANAGEMENT CORPORATION  
LINCOLN MANAGEMENT CORP.  
INTERNATIONAL PREMIUM COMPANY

*Nassau, Bahamas*

VICTORIA INSURANCE COMPANY LIMITED

*United Kingdom*

OVERSEAS INSURANCE SERVICES

SCOTTISH & YORK HOLDINGS GROUP



## **To The Shareholders**

The 1976 results of your Company are gratifying as they reflect a return to underwriting profitability. Underwriting profit for the Group amounted to \$820,488 compared to an underwriting loss of \$641,790 in 1975. Consolidated net income for 1976 was \$2,489,230 or 31.1¢ per common share compared with net income of \$910,286 or 15.2¢ per common share in 1975.

The per share net income for 1976 is based on 8,000,000 outstanding common shares reflecting the issue of 2,000,000 shares in January, 1976 pursuant to a rights issue.

1976 marked the first full year of our United States operations. U.S. premium income increased from \$8,665,352 in 1975 (12 months) to \$16,525,977 in 1976. Underwriting profit amounted to \$480,240 compared to an underwriting loss of \$474,714 for the six months from date of acquisition in 1975. Since acquisition, the United States companies have secured a total of 30 additional State licences or approvals and it is anticipated that approximately 17 more will be added by year end.

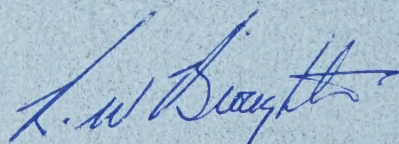
Canadian operations continued to improve over last year with modest underwriting profits being realized. The restraining influence of the Anti-Inflation Act has been felt by our industry in Canada and while we do not disagree with the aims of the legislation, we do feel that the restrictions on profits are too confining at a time when more capital is required to fulfil market demand.

In view of the favourable developments in 1976, the Directors of your Company approved the resumption of dividend payments. A dividend of 1.5¢ per common share was paid in September, 1976. This was subsequently increased to 2.0¢ per common share in December, 1976.

We were saddened by the passing of Lord Thomson of Fleet in August, 1976. Lord Thomson was a Director and Co-Chairman of our Canadian insurance companies. We will miss his enthusiasm and counsel.

The Directors wish to express their appreciation to the management and staff for their efforts and dedication throughout the year.

*Submitted on behalf of the  
Board of Directors*



R. W. BROUGHTON  
Chairman of the Board and  
Chief Executive Officer



# SCOTTISH & YORK HOLDINGS LIMITED

## and subsidiary companies

### ***Auditors' Report***

To the Shareholders of  
Scottish & York Holdings Limited

We have examined the consolidated balance sheet of Scottish & York Holdings Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Scottish & York Holdings Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
March 18, 1977

THORNE RIDDELL & CO.,  
Chartered Accountants



**SCOTTISH & YORK HOLDINGS LIMITED** (Incorporated under the laws of  
**CONSOLIDATED BALANCE SHEET DECEMBER 31, 1976**

**ASSETS**

|                                                                                                                             | <u>1976</u>         | <u>1975</u>         |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Cash .....                                                                                                                  | \$ 753,737          | \$ 700,172          |
| Marketable securities (note 2)                                                                                              |                     |                     |
| Term deposits .....                                                                                                         | 24,676,083          | 11,616,057          |
| Bonds (market value 1976, \$26,524,741;<br>1975, \$18,174,884) .....                                                        | 26,691,460          | 19,053,384          |
| Stocks (market value 1976, \$4,345,385;<br>1975, \$2,846,899) .....                                                         | 5,362,883           | 4,277,372           |
| Accrued interest on bonds and term deposits .....                                                                           | 723,201             | 443,267             |
| Accounts receivable .....                                                                                                   | 5,081,827           | 4,569,796           |
| Furniture, fixtures and automobiles<br>less accumulated depreciation 1976, \$105,878;<br>1975, \$77,750 .....               | 138,476             | 93,693              |
| Agencies, agreements and contracts, at cost .....                                                                           | 110,116             | 110,116             |
| Premium paid on acquisition of shares of<br>subsidiary companies, net of amortization of<br>\$23,328 (1975, \$13,764) ..... | 542,543             | 679,638             |
|                                                                                                                             | <u>\$64,080,326</u> | <u>\$41,543,495</u> |

Approved by the Board

W. G. HOLBROOK, Director

R. D. ABBOT, Director



## LIABILITIES

|                                                                     | 1976              | 1975              |
|---------------------------------------------------------------------|-------------------|-------------------|
| Notes payable (note 3)                                              | \$ 1,893,808      | \$ 4,275,803      |
| Accounts payable and accrued liabilities                            | 7,399,746         | 2,014,000         |
| Customers' deposits                                                 | 26,250            | 26,250            |
| Provision for outstanding claims                                    | 24,329,869        | 15,631,585        |
| Income and premium taxes payable                                    | 2,334,844         | 157,133           |
| Deferred revenue                                                    | 13,350,424        | 10,256,951        |
| Interest of minority common shareholders<br>of subsidiary companies | 1,269,208         | 1,092,567         |
|                                                                     | <u>50,604,149</u> | <u>33,454,289</u> |

## SHAREHOLDERS' EQUITY

|                                                                |                     |                     |
|----------------------------------------------------------------|---------------------|---------------------|
| Capital stock (note 4)                                         |                     |                     |
| Authorized                                                     |                     |                     |
| 10,000 First preference shares, par value                      |                     |                     |
| \$50 each, Issuable in series                                  |                     |                     |
| 12,000,000 Common shares without par value                     |                     |                     |
| (8,000,000 shares in 1975)                                     |                     |                     |
| Issued                                                         |                     |                     |
| 8,000,000 Common shares (6,013,912 shares                      |                     |                     |
| in 1975)                                                       | 3,701,000           | 523,259             |
| Retained earnings                                              | 9,775,177           | 7,565,947           |
|                                                                | <u>13,476,177</u>   | <u>8,089,206</u>    |
|                                                                | <u>\$64,080,326</u> | <u>\$41,543,495</u> |
| Contingent liabilities and contractual<br>commitments (note 5) |                     |                     |



SCOTTISH & YORK HOLDINGS LIMITED  
and subsidiary companies

561 052,394

CONSOLIDATED STATEMENT OF INCOME  
YEAR ENDED DECEMBER 31, 1976

|                                                                       | 1976         | 1975         |
|-----------------------------------------------------------------------|--------------|--------------|
| Gross premiums written and other income                               | \$59,789,076 | \$33,747,544 |
| Underwriting profit (loss)                                            | \$ 820,488   | \$ (641,790) |
| Investment income                                                     | 3,736,682    | 2,067,400    |
|                                                                       | 4,557,170    | 1,425,610    |
| Interest on notes payable                                             | 126,850      | 180,837      |
| Income before undernoted items                                        | 4,430,320    | 1,244,773    |
| Income taxes                                                          | 1,772,550    | 377,293      |
| Income before minority interest                                       | 2,657,770    | 867,480      |
| Interest of minority common shareholders of subsidiary companies, net | 168,540      | (42,806)     |
| Net Income                                                            | \$ 2,489,230 | \$ 910,286   |
| Earnings per share                                                    | 31.1¢        | 15.2¢        |

CONSOLIDATED STATEMENT OF RETAINED EARNINGS  
YEAR ENDED DECEMBER 31, 1976

|                              | 1976         | 1975         |
|------------------------------|--------------|--------------|
| Balance at beginning of year | \$ 7,565,947 | \$ 6,655,661 |
| Net income                   | 2,489,230    | 910,286      |
|                              | 10,055,177   | 7,565,947    |
| Dividends on common shares   | 280,000      |              |
| Balance at end of year       | \$ 9,775,177 | \$ 7,565,947 |



**SCOTTISH & YORK HOLDINGS LIMITED**  
and subsidiary companies

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**YEAR ENDED DECEMBER 31, 1976**

|                                                                               | <b>1976</b>         | <b>1975</b>         |
|-------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Resources provided</b>                                                     |                     |                     |
| Operations (as outlined below)                                                | \$19,216,632        | \$ 4,843,909        |
| Issue of common shares for cash                                               | 3,177,741           |                     |
| Sale of stocks, net                                                           |                     | 277,926             |
| Net change in other assets and liabilities                                    | 2,177,711           | 172,873             |
| Proceeds from notes payable                                                   | 700,005             |                     |
|                                                                               | <u>\$25,272,089</u> | <u>\$ 5,294,708</u> |
| <b>Resources applied</b>                                                      |                     |                     |
| Purchase of marketable securities, net                                        |                     |                     |
| Bonds                                                                         | \$ 7,638,076        | \$ 3,007,995        |
| Stocks                                                                        | 1,085,511           |                     |
| Notes payable                                                                 | 3,082,000           |                     |
| Increase in term deposits                                                     | 13,060,026          | 1,874,027           |
| Purchase of furniture, fixtures and automobiles, net                          | 72,911              | 14,809              |
| Acquisition of U.S. companies                                                 |                     | 349,817             |
| Dividends on common shares                                                    | 280,000             |                     |
| Increase in cash                                                              | 53,565              | 48,060              |
|                                                                               | <u>\$25,272,089</u> | <u>\$ 5,294,708</u> |
| <b>Operations</b>                                                             |                     |                     |
| Net income                                                                    | \$ 2,489,230        | \$ 910,286          |
| Items not involving cash                                                      |                     |                     |
| Depreciation                                                                  | 28,128              | 16,675              |
| Amortization of premium paid on acquisition of shares of subsidiary companies | 9,564               | 13,764              |
| Interest of minority common shareholders of subsidiary companies              | 176,641             | (42,806)            |
| Write off of premium paid on acquisition of subsidiaries                      | 127,531             |                     |
| Increase in deferred revenue                                                  | 3,093,473           | 5,419,468           |
| Increase in provision for outstanding claims                                  | 8,698,284           | 4,324,213           |
| Increase (decrease) in accounts payable and accrued liabilities               | 5,385,746           | (631,575)           |
| Increase in accounts receivable and accrued interest                          | (791,965)           | (1,907,030)         |
|                                                                               | <u>19,216,632</u>   | <u>8,102,995</u>    |
| Deduct, net resources provided from acquisition of U.S. companies             |                     | 3,259,086           |
| <b>Resources provided from operations</b>                                     | <u>\$19,216,632</u> | <u>\$ 4,843,909</u> |



# SCOTTISH & YORK HOLDINGS LIMITED

## and subsidiary companies

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### YEAR ENDED DECEMBER 31, 1976

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#### 1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles which, as to the subsidiary insurance companies, differ in some respects from statutory accounting practices followed in the preparation of financial statements submitted to regulatory authorities.

##### (a) Principles of Consolidation

The consolidated financial statements include all the subsidiary companies, which are:

|                                               | Percentage ownership |
|-----------------------------------------------|----------------------|
| Canadian Group                                |                      |
| Scottish & York Insurance Co. Limited         | 97.92%               |
| Central Canada Insurance Service Limited      | 100%                 |
| Victoria Insurance Company of Canada          | 99.1%                |
| U.S. Group                                    |                      |
| Scottish & York, Inc.                         | 100%                 |
| Lincoln Insurance Company                     | 80%                  |
| Lincoln Management Corp.                      | 80%                  |
| Associated Treaty Managers, Inc.              | 80%                  |
| Guarantee Insurance Company                   | 80%                  |
| International Management Corporation          | 80%                  |
| (formerly Guarantee Management, Corp.)        |                      |
| Scottish & York International Insurance, Inc. | 80%                  |
| International Premium Company                 | 80%                  |
| Bahamas                                       |                      |
| Victoria Insurance Company Limited            | 100%                 |

The comparative figures include the results of operations of the U.S. Group for the six months ended December 31, 1975.

Under an agreement dated June 27, 1975, among Scottish & York Holdings Limited, International Insurance Holdings Corporation, Scottish & York, Inc. and Scottish & York International Insurance, Inc. relating to the July 1, 1975 acquisition of the 80% interest in the U.S. Group, provision is made whereby additional consideration may be payable depending on the level of future profits of the U.S. Group. The purchase agreement also provides for adjustments in respect of the tax savings resulting from the carry-forward of losses incurred by the U.S. Group prior to July 1, 1975, as well as for uncollected accounts receivable, undisclosed liabilities and unreflected assets at that date. During 1976 Scottish and York, Inc. realized income tax savings amounting to approximately U.S. \$539,400 as a result of the application of losses incurred by the U.S. Group prior to July 1, 1975.

##### (b) Translation into Canadian Dollars

The accounts of the subsidiary companies in the United States and the Bahamas have been translated into Canadian dollars on the following basis:

- (i) assets and liabilities of a monetary nature at the rate of exchange prevailing at December 31,



- (ii) all other assets and liabilities at the rate of exchange prevailing at the date the assets were acquired or the liabilities incurred,
- (iii) income and expenses at the average rate for the year.

(c) Marketable Securities

- (i) Term deposits are recorded at cost.
- (ii) Bonds are recorded at cost or amortized cost.  
Interest income is recorded on an accrual basis.
- (iii) Stocks are recorded at cost.  
Dividend income is recorded on a cash received basis.
- (iv) Gains and losses on disposal of investments are determined on a first in, first out basis.

(d) Furniture, Fixtures and Automobiles and Accumulated Depreciation

All furniture, fixtures and automobiles are recorded at cost, less accumulated depreciation.

Furniture, fixtures and equipment are depreciated over their estimated useful life at varying rates ranging from 12½% straight line basis to 20% reducing balance basis. Automobiles are depreciated over their useful life at the rate of 30% reducing balance basis.

(e) Premium Paid on Acquisition of Shares of U.S. Subsidiary Companies

The company amortizes such premium over forty years from date of acquisition. In addition other adjustments were made which reduced such premium by a net amount of \$127,531.

(f) Deferred Revenue

- (i) Deferred commission income and policy acquisition costs.  
Policy acquisition costs, net of reinsurance allowances, are deferred and amortized over the terms of the related policies. For the years 1976 and 1975 deferred commission income exceeded deferred acquisition costs. Accordingly, the net credit balance is included in deferred revenue.
- (ii) Deferred premium income.  
Premium income is deferred until it is earned. The basis for taking premiums into income is in accord with policies prescribed by the regulating organizations under which the companies operate.

(g) Provision for Outstanding Claims

The liabilities for losses and claims and related adjustment expenses are determined using case basis evaluations plus a provision for unreported claims and represent estimates of the ultimate net cost of all losses and claims incurred through December 31, 1976. Since the provisions are necessarily based on estimates which in some cases are supplied by reinsuring companies, the ultimate liability may be more or less than the estimated amounts. These liabilities have been stated net of reinsurance recoverable from other companies.

(h) Recognition of Income

A subsidiary company, Associated Treaty Managers, Inc., manages a number of reinsurance arrangements for which it receives management fees based upon earned premiums. The fee income is recognized simultaneously with the recognition of earned premiums by the reinsurers.

(i) Income taxes

Tax losses of prior years of a Canadian subsidiary amounting to approximately \$85,000 remain available in determining income taxes in future years to 1978. Tax losses amounting to approximately U.S. \$922,000 relating to the operation of the U.S. companies since acquisition also remain available in determining income taxes in future years to 1980. The tax effects of these losses have not been recorded in the accounts.



## 2. MARKETABLE SECURITIES

Marketable securities having a cost of approximately U.S. \$4,808,000 at December 31, 1976 were deposited to secure liabilities under reinsurance contracts.

## 3. NOTES PAYABLE

|                                                                                                                                                                                                                                   | <u>Total</u>       | <u>Due within<br/>one year</u> | <u>Due within<br/>five years</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------------|----------------------------------|
| Note payable to The Royal Bank of Canada bearing interest at the rate of U.S. prime plus 1% payable \$253,000 on January 15, 1977 (paid on that date) \$253,000 on July 15, 1977 and the balance July 15, 1978 (\$1,000,000 U.S.) | \$1,012,000        | \$ 506,000                     | \$ 506,000                       |
| Notes payable to the National Bank of Commerce<br>7%, due January 10, 1977<br>(subsequently paid)<br>(\$550,000 U.S.)                                                                                                             | 556,600            | 556,600                        |                                  |
| Prime rate plus 1%, due on demand<br>(\$141,500 U.S.)                                                                                                                                                                             | 142,334            | 142,334                        |                                  |
| Note payable to International Insurance Holdings Corporation bearing interest at the rate of 1% above the First National City Bank U.S. base rate, payable June 30, 1977<br>(\$181,803 U.S.)                                      | 182,874            | 182,874                        |                                  |
|                                                                                                                                                                                                                                   | <u>\$1,893,808</u> | <u>\$1,387,808</u>             | <u>\$ 506,000</u>                |

## 4. CAPITAL STOCK

Under a rights offering dated December 10, 1975 the shareholders of record at the close of business on December 9, 1975 were entitled to one right for each common share held. Three such rights, together with \$1.60 entitled the shareholder to purchase one additional common share of the company.

This offering, which expired on January 15, 1976, was fully subscribed and the company issued 1,986,088 treasury shares for a cash consideration of \$3,177,741.

During the year the company amended its articles of incorporation increasing the authorized common shares from 8,000,000 to 12,000,000 common shares without par value.

As at December 31, 1975, Montreal Trust Company was holding in trust \$22,259 as consideration for the subscription of 13,912 shares.

## 5. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

- (a) A wholly owned subsidiary company Victoria Insurance Company Limited, has been assessed Federal income taxes relating to the years 1968, 1969 and 1970 amounting to approximately \$1,000,000 including interest to November 30, 1973. A Notice of Objection was filed with respect to these assessments in 1974 and Revenue Canada, Taxation reconfirmed the assessments on February 6, 1975.

The company has filed Notice of Appeal to the Tax Review Board. The appeal has been set down for a hearing by the Board on June 21, 1977.

The company has deposited its share investment in subsidiary companies Scottish & York Insurance Co. Limited and Victoria Insurance Company of Canada with The Royal Bank of Canada to be held as security until the outcome of this appeal is known.

- (b) The company leases office space for a term expiring in 1984 with an option to extend this to 1994. The annual rental is approximately \$80,000.



## 6. ANTI-INFLATION LEGISLATION

The Company and its Canadian subsidiaries are subject to the provisions of the Federal Government's Anti-Inflation Act which became effective on October 14, 1975. This Act imposes restrictions on prices, profit margins, compensation to employees and payment of dividends by the parent company.

In the opinion of management, the Company and its Canadian subsidiaries have complied with the provisions of the Act.

The maximum dividend payable to the company's shareholders during the year ending October 31, 1977 under the Act is 14.6¢ per share. The current rate of dividends on the company's common shares is 8¢ per share per annum.

## 7. OTHER STATUTORY INFORMATION

|                                                                                                       | <u>1976</u> | <u>1975</u> |
|-------------------------------------------------------------------------------------------------------|-------------|-------------|
| Direct remuneration of directors and senior officers<br>(as defined by The Business Corporations Act) | \$254,158   | \$209,399   |
| Depreciation                                                                                          | \$ 28,128   | \$ 16,675   |
| Amortization                                                                                          | \$ 9,564    | \$ 13,764   |



SCOTTISH & YORK HOLDINGS GROUP

Five Year Performance Record

| YEAR | GROSS<br>PREMIUMS<br>WRITTEN | NET<br>PREMIUMS<br>WRITTEN | DEFERRED<br>REVENUE |
|------|------------------------------|----------------------------|---------------------|
| 1976 | 56,052,394                   | 41,540,610                 | 13,350,424          |
| 1975 | 31,676,100                   | 24,373,390                 | 10,256,951          |
| 1974 | 19,975,895                   | 13,812,615                 | 4,837,483           |
| 1973 | 23,223,028                   | 16,151,894                 | 5,002,818           |
| 1972 | 21,984,441                   | 15,594,384                 | 4,089,777           |



| INCOME<br>BEFORE<br>TAXES AND<br>MINORITY INTEREST | INCOME<br>TAXES | NET<br>INCOME | EARNINGS<br>PER<br>SHARE | DIVIDENDS<br>PAID<br>PER SHARE |
|----------------------------------------------------|-----------------|---------------|--------------------------|--------------------------------|
| 4,430,320                                          | 1,772,550       | 2,489,230     | 31.1¢                    | 3.5¢                           |
| 1,244,773                                          | 377,293         | 910,286       | 15.2¢                    | —                              |
| 1,256,719                                          | 429,534         | 827,185       | 13.8¢                    | 13.5¢                          |
| 1,926,717                                          | 536,558         | 1,390,159     | 23.2¢                    | 18¢                            |
| 2,302,851                                          | 605,774         | 1,697,077     | 28.3¢                    | 16¢                            |



-  $\Delta$  - appoint as <sup>long hand turner</sup> ~~minimal~~ <sup>coordinator</sup>  
L - surplus line white <sup>system</sup>

- larger - 1978 - need about 7 percent

- full

- ~~expect~~ must be ahead  
of 1978



AR49



SCOTTISH  
&  
YORK

INTERIM  
REPORT

JUNE 30, 1976



**SCOTTISH & YORK HOLDINGS LIMITED**  
and Subsidiary Companies  
**CONSOLIDATED STATEMENT OF INCOME**

**TO THE SHAREHOLDERS**

Net income for the six month period ended June 30, 1976 was \$1,001,773 compared to \$844,947 for the same period last year.

Earnings per common share for the first six months were 13¢ based on 8,000,000 shares outstanding compared with 14¢ for the same period of 1975 based on 6,000,000 shares outstanding. The increase in the number of shares reflects the issue of 2,000,000 shares in January 1976 pursuant to a rights issue.

Operations continued to be satisfactory for the first half especially in the United States where an underwriting profit was realized. The outlook for the balance of the year is favourable although some uncertainty exists in Canada where operations are subject to the regulations under the Anti-Inflation Act.

The Directors have determined that the Company's current operating results and future prospects justify the resumption of dividends and accordingly have declared a dividend of 1.5¢ per share for the third quarter of 1976 payable September 15, 1976.

R. W. BROUGHTON,  
*Chairman of the Board and  
Chief Executive Officer*

August 26, 1976

|                                                                  | Six Months Ended |               |
|------------------------------------------------------------------|------------------|---------------|
|                                                                  | June 30, 1976    | June 30, 1975 |
| Gross Premium Written and Other Income                           | \$25,833,184     | \$13,261,166  |
| Underwriting Profit                                              | 218,180          | 135,550       |
| Investment Income                                                | 1,581,633        | 902,872       |
|                                                                  | 1,799,813        | 1,038,422     |
| Interest on Notes Payable                                        | 68,671           | —             |
|                                                                  | 1,731,142        | 1,038,422     |
| Income Taxes                                                     | 656,341          | 190,000       |
|                                                                  | 1,074,801        | 848,422       |
| Interest of Minority Common Shareholders of Subsidiary Companies | 73,028           | 3,475         |
| Net Income                                                       | \$ 1,001,773     | \$ 844,947    |
| Net Income per Share                                             | 13¢              | 14¢           |

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

|                                                                  | Six Months Ended |               |
|------------------------------------------------------------------|------------------|---------------|
|                                                                  | June 30, 1976    | June 30, 1975 |
| Resources Provided                                               |                  |               |
| Operations:                                                      |                  |               |
| Net Income for the Six Months                                    | \$ 1,001,773     | \$ 844,947    |
| Add Items not Involving a Current Outlay of Funds                |                  |               |
| Depreciation                                                     | 17,000           | 6,000         |
| Interest of Minority Common Shareholders of Subsidiary Companies | 73,028           | 3,475         |
|                                                                  | 1,091,801        | 854,422       |
| Proceeds from Rights Offering                                    | 3,177,741        | —             |
| Increase in Accounts Payable                                     | 1,130,108        | —             |
| Increase in Provision for Outstanding Claims                     | 2,671,872        | 97,815        |
| Increase in Deferred Revenue                                     | 4,018,580        | 1,407,159     |
| Decrease in Cash                                                 | 1,690,156        | —             |
| Net Change in Other Assets and Liabilities                       | 494,055          | —             |
|                                                                  | \$14,274,313     | \$ 2,359,396  |
| Resources Applied                                                |                  |               |
| Decrease in Accounts Payable                                     | \$ —             | \$ 1,393,059  |
| Purchase of Marketable Securities, Net                           | 7,697,451        | 263,517       |
| Increase in Accounts Receivable                                  | 3,709,129        | 266,278       |
| Decrease in Notes Payable                                        | 2,867,733        | —             |
| Net Change in Other Assets and Liabilities                       | —                | 436,542       |
|                                                                  | \$14,274,313     | \$ 2,359,396  |